

# **REPLACEMENT OF SAS 70 WITH SSAE 16**



**Feeley & Driscoll, P.C.**

Certified Public Accountants / Business Consultants  
[www.fdcpa.com](http://www.fdcpa.com)

Visit us on the web: [www.fdcpa.com](http://www.fdcpa.com)

Or Call: 888-875-9770

# SAS 70 Background

2

- SAS No. 70 – Reports on the Processing of Transactions by Service Organizations
- Independent examination of controls
- Service organization and service auditor
- User entity and user auditor
- Type 1 and Type 2 audits
- Carve-out and inclusive methods



# Evolving Conditions

3

- Rapid increase in market demand:
  - Expand use of service organizations
  - Sarbanes-Oxley 404
  - Heightened interest in internal controls
  - Globalization
  
- Wide acceptance and broad adoption



# Challenges

4

- Challenges:
  - Increasing regulatory requirements and a desire to align with international standards
  - The following new pronouncements were used by rule making authorities
  
- In Response to:
  - ISAE 3420 – (International Standard on Assurance Engagements) *Assurance Reports on Controls at a Service Organization* per International Auditing and Assurance Standards Board (IAASB)
  
  - SSAE 16 – (Statement on Standards for Attestation Engagements) *Reporting on Controls at a Service Organization* per AICPA Auditing Standards Board (ASB)



# SSAE 16 – The Same

5

- Consistent with SAS 70:
  - Internal controls at service organization
  - Emphasis on financial reporting
  - How to use of subservice organizations are considered
  - Concept of Type 1 and Type 2 reports
  - Structure of report
  - Testing methods
  - Use and restricted distribution of report



# SSAE 16 – The Difference

6

- Move from audit to attestation standard
- Written management assertion included in the report
- Suitable criteria used to consider design of controls
- Design opinion in Service Auditor's Report to cover entire period
- Greater emphasis on carve-out vs. inclusive method
- Clarity on consideration of materiality
- Prescribed guidance and reporting for use of internal audit



# Effective Date

7

- For reporting periods ending on or after June 15, 2011
- Early adoption is permitted



# THE DETAILS



Feeley & Driscoll, P.C.

Certified Public Accountants / Business Consultants  
[www.fdcpa.com](http://www.fdcpa.com)

Visit us on the web:

[www.fdcpa.com](http://www.fdcpa.com)

Or Call: 888-875-9770

# Knowing the Details

9

- Attestation Standards
  - Move from assurance to attestation examination
  
- Management Assertion
  - Use suitable criteria as a basis for assertion
  - Assertions are defined and inserted into the report:
    - System description is fairly presented and notes relevant changes
    - Controls were suitable designed and operating effectively during the period
  - Would also be required from subservice organizations



# Knowing the Details (continued)

10

- Written Representations
  - Reaffirm assertions and design of systems
  - Disclose to auditors instances of:
    - Noncompliance with laws and regulations
    - Design deficiencies
    - Controls not operating as designed
    - Subsequent events
  
- Suitability of the Criteria
  - Management identifies risks to achieve control objectives
  - Process to identify risks could be formal or informal
  - Ultimately, the criteria must provide a reasonable basis for management assertions



# Knowing the Details (continued)

11

- Carve-Out vs. Inclusive Method
  - More emphasis now placed on carve-out method
  - Subservice organizations must meet SSAE 16 requirements
  - Requires subservice organization to provide representations
  
- Materiality
  - Relates to information being audited and not the financial statement of the user entities
  - Involves fair presentation of:
    - Management's design of systems
    - Suitability of design of control objectives
    - Operating effectiveness to achieve control objectives



# Knowing the Details (continued)

12

- Use of Work by Internal Audit Function
  - Ability for direct assistance for internal audit
  - Determine adequacy of specific work done by internal audit
  - Describe tests performed by internal audit in test descriptions
  
- International Standards
  - Close alignment between SSAE 16 and ISAE 3402
  - Comparison of differences found in Exhibit B of SSAE 16
  - If serving an international audience, then warrants closer look



STAY TUNED



Feeley & Driscoll, P.C.

Certified Public Accountants / Business Consultants  
[www.fdcpa.com](http://www.fdcpa.com)

Visit us on the web:

[www.fdcpa.com](http://www.fdcpa.com)

Or Call: 888-875-9770

# Reporting Methods

14

- AICPA SOC 1 Report
  - Report on Controls at a Service Organization Relevant to User Entities' Internal Controls over Financial Reporting (Type 1 and Type 2 Reports)
  
- AICPA SOC 2 Report
  - Report on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality and/or Privacy
  
- AICPA SOC 3 Report
  - Trust Services Report – Trust Services Principles, Criteria and Illustrations (Including WebTrust and SysTrust)



# Non-Financial Controls

15

	<b>SSAE 16 Report (SOC 1 Report)</b>	<b>Trust Services Report (SOC 3 Report)</b>
Nature of Engagement	Internal Controls Over Financial Reporting	System Reliability
Prescribed Set of Control Objectives/Criteria	No	Yes
Nature of Details of Control Objectives Disclosed	Yes	No
Report Distribution	General Restrictions	No Restrictions
Audience	User Entities and User Auditors	System Stakeholder



# Opinion Letter

16

- Defines management's responsibilities
- Opine that controls were designed and operating effectively throughout the entire examination period
- Note significant control changes implemented during the period
- Qualified opinions when:
  - System description not presented fairly in all material respects
  - Controls are not suitably designed
  - Controls did not operate effectively during the specified period
  - Auditor is unable to obtain sufficient appropriate evidence
- Dependence of controls on complementary user entity controls
- Disclose subsequent events
- Restricted use



# Subservice Organizations

17

- Same considerations will apply to subservice organization:
  - ▣ Description of its systems
  - ▣ Management assertions
  - ▣ Written representations
  - ▣ Suitability of criteria
- May result in adjusted presentation of controls
- Could lead to shifting from inclusive to carve-out method
- Close communication with audit team and subservice organization is highly recommended
- Use lead time before SSAE 16 is effective to develop your best strategy



# FORWARD THINKING



Feeley & Driscoll, P.C.

Certified Public Accountants / Business Consultants  
[www.fdcpa.com](http://www.fdcpa.com)

Visit us on the web:

[www.fdcpa.com](http://www.fdcpa.com)

Or Call: 888-875-9770

# Next Steps – Proper Planning

19

- Determine adequacy of monitoring procedures and basis for assertions
- Review and update evaluation criteria
- Modify service agreements and client contracts as needed
- Review control objectives and risks to meeting them
- Develop mutual approach with subservice organizations
- Communicate with your service auditor on proposed approaches and changes
- Regularly review information released through AICPA

